

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
NOVEMBER 29, 2016
AGENDA

1. Call Meeting to Order
2. Approval of Minutes from the TLDA meeting of September 21, 2016
3. Consider for approval the following CWSRF loans:

	SRF Base Loan	Principal Forgiveness	Total SRF Funding	Interest Rate
Cleveland CG3 2017-379	\$ 104,897	\$ 5,521	\$ 110,418	0.88%

4. Consider for approval the following DWSRF loans:

	SRF Base Loan	Principal Forgiveness	Total SRF Funding	Interest Rate
Smith Utility District DW5 2016-182	\$1,098,375	\$366,125	\$1,464,500	0.53%

5. Consideration of a request from the Poplar Grove Utility District to issue Waterworks Revenue Refunding Bonds in an amount not to exceed \$6 million subordinate to its existing SRF loan
6. Consideration of a request from the City of Franklin to issue Water and Sewer Revenue Bonds in an amount not to exceed \$12 million on parity with its existing SRF loans
7. Adjourn

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
September 21, 2016

The Tennessee Local Development Authority (the “Authority” or “TLDA”) met on Wednesday, September 21 2016, at 1:45 p.m. in the Legislative Plaza, room LP-29, Nashville, Tennessee. The Honorable Tre Hargett, Secretary of State, was present and presided over the meeting.

The following members were also present:

The Honorable Justin Wilson, Comptroller of the Treasury
Ms. Whitney Goetz, proxy for the Honorable David Lillard, State Treasurer
Commissioner Larry Martin, Department of Finance and Administration

The following member participated telephonically as authorized by Tennessee Code Annotated Section 8-44-108 and as posted in the meeting notice:

Dr. Kenneth Moore, House Appointee

The following members were absent:

The Honorable Bill Haslam, Governor
Mr. Pat Wolfe, Senate Appointee

Recognizing a physical quorum present, Mr. Hargett called the meeting to order.

Mr. Hargett asked for a motion to approve the minutes of the August 11, 2016, TLDA meeting. Mr. Wilson made a motion to approve the minutes, and Mr. Martin seconded the motion.

The minutes were unanimously approved.ⁱ

Mr. Wilson asked Mr. Sherwin Smith, Director of the Tennessee Department of Environment and Conservation (TDEC) SRF program to present the requests for Drinking Water State Revolving Fund (SRF) loans. Mr. Smith first presented the unobligated fund balance. He stated the balance was \$36,484,703 as of August 11, 2016. This balance increased a total of \$16,977,507 from principal and interest repayments, interest earnings on funds held in the State Pooled Investment Fund, and the FY16 EPA capitalization grant (net of set-asides) along with the associated state-match dollars. Upon approval of the loan requests to be presented, the funds available for loan obligations would decrease to \$50,382,210. He then described the loan requests:

- South Elizabethton Utility District (DG5 2016-177)—Requesting \$680,000 (\$510,000 (75%) loan; \$170,000 (25%) principal forgiveness) for waterline replacements and pump station improvements project; recommended interest rate of 0.19% based on the Ability to Pay Index (ATPI).
- First Utility District of Hawkins County (DG5 2016-181)—Requesting \$1,000,000 (\$750,000 (75%) loan; \$250,000 (25%) principal forgiveness) for green water meter replacement; recommended interest rate of 0.53% based on the ATPI.
- First Utility District of Hawkins County (DWF 2016-184)—Requesting \$1,400,000 for green water meter replacement; recommended interest rate of 0.53% based on the ATPI.

Mr. Hargett made a motion to approve the loans, and Mr. Martin seconded the motion. Mr. Hargett performed a roll-call vote:

ⁱ Dr. Moore joined the meeting at approximately 1:46 p.m. via telephone. Mr. Hargett stated roll-call votes would now be required.

Dr. Moore—Yes
Mr. Martin—Yes
Ms. Goetz—Yes
Mr. Wilson—Yes
Mr. Hargett—Yes

The motion was unanimously approved.

Mr. Hargett stated that the next item was a public hearing and consideration of a request for approval of the proposed TLDA SRF Policy and Guidance for Borrowers (the “Policy and Guidance”). He said that public comments were received and some revisions were made based on those comments. Mr. Hargett recognized Ms. Sandi Thompson, Director of the Office of State and Local Finance and Assistant Secretary to the TLDA, to present the item. Ms. Thompson stated that some changes were made and incorporated into the red-line version that was provided to members in the materials for the meeting. Ms. Thompson asked Ms. Alicia Scott, Program Accountant in the Office of State and Local Finance, to discuss the revisions:

Ms. Scott stated that the following revisions were made:

- The guidance for municipalities to issue additional debt was revised. The requirement for notification was removed in instances where municipal borrowers are issuing debt that will be secured by revenues other than water/wastewater revenues. For GO debt, the policy was revised to indicate that no approval from or notification to the TLDA is required unless the new debt will also be secured by water/wastewater revenues. In that case, the borrower would follow the guidance for revenue debt issuances.
- The section on Lien Position was revised to clarify that a Borrower may, along with their request for a loan from the SRF program, request that the lien position of new SRF loans be on parity with existing debt.
- The section on Consent to Modify Lien Position was revised and no longer refers to ad valorem taxes.

Mr. Hargett acknowledged staff’s effort on the proposed Policy and Guidance and also said that the feedback provided by the public contributed to constructive revisions. Mr. Hargett made a motion to adopt the TLDA SRF Policy and Guidance for Borrowers as presented, which consolidated and revised all previous policies of the TLDA. This Policy and Guidance would be effective as of the date of this meeting. Mr. Martin seconded the motion. Mr. Wilson asked Mr. Hargett to verify if anyone present at this meeting wished to comment before the Authority voted. Mr. Hargett opened the floor for public comments, and there were none. Mr. Hargett performed a roll-call vote:

Dr. Moore—Yes
Mr. Martin—Yes
Ms. Goetz—Yes
Mr. Wilson—Yes
Mr. Hargett—Yes

The motion was unanimously approved.

Mr. Wilson made motion to adjourn, and Mr. Martin seconded the motion. Mr. Hargett performed a roll-call vote.

Dr. Moore—Yes
Mr. Martin—Yes
Ms. Goetz—Yes
Mr. Wilson—Yes
Mr. Hargett—Yes

The meeting was adjourned.

Approved on this ____ day of _____, 2016.

Respectfully submitted,

Sandra Thompson
Assistant Secretary

DRAFT

DEPARTMENT OF ENVIRONMENT AND CONSERVATION
DIVISION OF WATER RESOURCES

Clean Water State Revolving Fund (CWSRF) Loan Program
Funds Available for Loan Obligation
November 29, 2016

Unobligated Balance as of August 11, 2016 **\$ 122,362,688**

Increases:

Principal Repayments FY 2016 (unaudited) net	*	\$ 22,589,055	
Interest Repayments FY 2016 (unaudited) net	*	\$ 7,280,497	
Treasury Interest FY 2016 (unaudited)	*	\$ 1,196,890	
FY 2016 EPA Capitalization Grant (net of set-asides)		\$ 7,124,000	
State Matching of Federal Grant		\$ 1,424,800	
Reduction to previous loans (see note below)	**	\$ 114,202	
			<u>\$ 39,729,444</u>

Unobligated Balance as of November 29, 2016 **\$ 162,092,132**

Applicants:

	<u>Loan Number</u>	<u>Loan Amount</u>	
Cleveland (Subsidized @ \$5,521)	CG3 2017-379	\$ 110,418	
			<u>\$ 110,418</u>

Remaining Funds Available for Loan Obligations **\$ 161,981,714**

* These amounts are subject to change, as the amounts are pending final closing of the books.

**** Decrease to Previous Loans**

	<u>Loan Number</u>	<u>Amount</u>	
Fayetteville	CG1 2013-316	\$ 429	
White House	SRF 2012-308	\$ 113,607	
White House	CG2 2013-326	\$ 166	
			<u>\$ 114,202</u>

FACT SHEET

NOVEMBER 29, 2016

Borrower:	City of Cleveland		
Population:	41,285		
County:	Bradley County		
Consulting Engineer:	Cleveland Water and Wastewater Division		
Project Number:	CG3 2017-379		
Priority List Ranking/Points:	14(FY 2014)/45		
Recommended Term:	20 years		
Recommended Rate:	(1.62 X 70%) - (0.25%) = 0.88%		
Project Description: Green-Water Meter Replacements-Mobile Communicator with video Interactive display system			
Total Project Cost:	\$ 2,610,418.00		
Sources of Funding:			
SRF Loan Principal (95%)	\$ 104,897.10		
SRF Principal Forgiveness (5%)	\$ 5,520.90		
Other Funds (CG4 2015-349)	\$ 2,500,000.00		
State-Shared Taxes:	\$ 7,470,545		
Debt Service:			
Prior Loans: (including SRF)	\$ 1,364,412	18.26%	
Proposed Loan:	\$ 5,722	<u>.08%</u>	
Total:	\$ 1,370,134	18.34%	
Residential User Charge: (5,000 gal/month)			
Current Rate:	\$ 34.76		
Public Meeting:	July 17, 2014		

**REPRESENTATION OF THE LOCAL GOVERNMENT
AS TO LOANS AND STATE-SHARED TAXES
City of Cleveland
CG3 2017-379**

The Local Government hereby represents that:

- (1) The total amount of State-Shared Taxes received by the Local Government in the prior fiscal year of the State is \$7,470,545.
- (2) (a) The prior loans which have been funded for which the Local Government has pledged its State-Shared Taxes are as follows:

Loan Type	Loan #	Loan Amount	Principal Forgiveness	Max. Annual Debt Service
QSCB	BFC01000	\$4,160,000	-	\$323,000
SRF/Sewer	CWA 09-241	\$1,359,000	\$543,600	\$50,016
SRF/Sewer	CW0 13-319	\$1,826,000	\$451,022	\$76,991
SRF/Sewer	SRF 13-320	\$8,174,000	-	\$457,696
SRF/Water	DG2 14-151	\$2,500,000	\$500,000	\$115,811
SRF/Sewer	CG4 15-349	\$2,500,000	\$175,000	\$133,096
SRF/Water	DWF 16-172	\$3,725,500	-	\$207,802

- (b) The maximum aggregate annual debt service is \$1,364,412.
- (3) (a) The loans which have been applied for or have been approved with funding not yet provided, for which the Local Government has pledged its State-Shared Taxes are as follows:

Loan Type	Anticipated Interest Rate	Original \$/Amt	Principal Forgiveness	Anticipated Max. Annual Debt Service
SRF/Sewer	0.88%	\$110,418	\$5,520.90	\$5,722

- (b) The anticipated maximum aggregate annual debt service is \$5,722.
- (4) (a) State-Shared Taxes have been pledged by the Local Government to secure other obligations describe below:

Type of Obligation	Identifying #	Original \$/Amt	Max. Annual Pledge of State-Shared Taxes
N/A			

- (b) The anticipated maximum aggregate annual pledge of State-Shared Taxes pursuant of other obligations is \$0.

- (5) The amount of Local Government indebtedness Subparagraphs (2)(b), (3)(b) and (4)(b) having a lien on the State-Shared Taxes referred above is \$1,370,134
- (6) The amount set forth in Subparagraph (1) less the amount set forth in Subparagraph (5) is \$6,100,411.

Duly signed by an authorized representative of the Local Government on this 26th day of September, 2016.

LOCAL GOVERNMENT

BY: Ken Webb
Ken Webb, President / CEO of the UB

DEPARTMENT OF ENVIRONMENT AND CONSERVATION
DIVISION OF WATER RESOURCES

Drinking Water State Revolving Fund (DWSRF) Loan Program
Funds Available for Loan Obligation
November 29, 2016

Unobligated Balance as of September 21, 2016 **\$ 50,382,210**

<u>Increases:</u>	<u>Loan Number</u>	<u>Loan Amount</u>
Reductions to Prior Loans	*	<u>\$ 1,037,088</u>
		<u>\$ 1,037,088</u>

Unobligated Balance as of November 29, 2016 **\$ 51,419,298**

<u>Applicants:</u>	<u>Loan Number</u>	<u>Loan Amount</u>
Smith Utility District (Subsidized @ \$366,125)	DW5 2016-182	<u>\$ 1,464,500</u>
		<u>\$ 1,464,500</u>

Remaining Funds Available for Loan Obligations **\$ 49,954,798**

*** Reductions to Prior Loans**

<u>Loan Decreases</u>	<u>Loan Number</u>	<u>Amount</u>
Troy	DWF 2016-168	\$ 37,903
Big Creek Utility District	DG2 2013-135	\$ 299,235
Cookeville Boat Dock Road Water Utility District	DG4 2015-157	<u>\$ 699,950</u>
Total Loan Decreases		<u><u>\$ 1,037,088</u></u>

FACT SHEET

NOVEMBER 29, 2016

Borrower: Smith Utility District

Population: 7,986

County: Smith County

Consulting Engineer: Warren and Associates Engineering, PLLC.

Project Number: DW5 2016-182

Priority List Ranking/Points: 5(FY 2015)/45

Recommended Term: 20 years

Recommended Rate: $(1.95 \times 40\%) - (0.25\%) = 0.53\%$

Project Description: Waterline Replacements along Main St. and Downtown/Cedar St. Areas

Total Project Cost: \$ 1,464,500

Sources of Funding:

SRF Loan Principal (75%)	\$ 1,098,375
Principal Forgiveness (25%)	\$ 366,125
Other Funds	\$ -0-

Gross Revenues: \$ 2,153,855

Debt Service:

Prior Loans: (including SRF)	\$ 10,368	0.48%
Proposed Loan:	\$ 57,893	2.69%
Total:	\$ 68,261	3.17%

Residential User Charge: (5,000 gal/month)

Current Rate:	\$ 33.40
Proposed Rate:	\$ 35.07 (Effective Date: January 01, 2017)

Public Meeting: June 23, 2016

**REPRESENTATION OF THE LOCAL GOVERNMENT
AS TO OUTSTANDING LOANS
Smith UD
DW5 2016-182**

The Local Government hereby represents that:

- (1) The total amount of revenues of the system received by the Local Government in the prior fiscal year of the State is \$2,153,855
- (2) (a) The prior loans which have been funded for which the Local Government has pledged its revenues are as follows:

Loan Type	Loan #	Original \$/Amt.	Principal Forgiveness	Max: Annual Debt Service
SRF/Water	09-094	\$300,000	\$120,000	\$10,368

- (b) The maximum aggregate annual debt service is \$10,368.
- (3) (a) The loans which have been applied for or have been approved with funding not yet provided, for which the Local Government has pledged its revenues are as follows:

Loan Type	Anticipated Interest Rate	Original \$/Amt.	Principal Forgiveness	Anticipated Max. Annual Debt Service
SRF/Water	0.53%	\$1,464,500	\$366,125	\$57,893

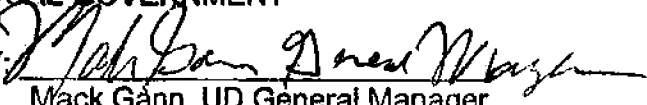
- (b) The anticipated maximum aggregate annual debt service is \$57,893.
- (4) The amount of Local Government indebtedness (Subparagraphs (2)(b) and (3)(b) having a lien on the revenues referred above is \$68,261.
- (5) The amount set forth in Subparagraph (1) less the amount set forth in Subparagraph (4) is \$2,085,594.

Duly signed by an authorized representative of the Local Government on this 7th
day of NOVEMBER, 2016.

*This is the Comptroller's certificate as required by TCA 4-31-108. The approval of the loan(s) is
contingent upon approval by the Tennessee Local Development Agency.*

LOCAL GOVERNMENT

BY:


Mack Gann, UD General Manager



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF STATE AND LOCAL FINANCE**

**POPLAR GROVE UTILITY DISTRICT
REQUEST TO ISSUE REFUNDING BONDS**

The Poplar Grove Utility District (the “District”) has submitted a request for approval to issue refunding bonds with a subordinate lien position to its outstanding State Revolving Fund loans (“SRF Loans”). The District plans to issue a not to exceed \$6,000,000 Waterworks Revenue Refunding Bonds, Series 2016A&B to current refund \$1,949,556 Rural Development Bonds, Series 2001A, and advance refund \$3,395,000 Waterworks Revenue Refunding and Improvement Bonds, Series 2008.

Purpose of the Refunding

The District is issuing the Refunding Bonds for present value debt service savings. The District estimates net present value savings of \$759,905 or 14.21% of the refunded principal amount of \$5,344,556.

SRF Loans Information

The District’s current SRF portfolio:

Loan ID	Total Funding	Original Amount	Principal Forgiveness	Outstanding Balance as of	
				November 17, 2016	
DG 14-147	\$ 800,000	\$ 520,000	\$ 280,000	\$	346,151

Credit Ratings

The District intends to sell the Refunding Bonds with municipal bond insurance to achieve a bond rating of A2 from Moody’s.

Compliance with SRF Loan Covenants

SRF Loan covenants and representations:

- Item 7.(g) GAAP Accounting and Audited Annual Financial Statement Requirement
 - The District met this covenant and has timely filed its audited financial statements with the Division of Local Government Audit through fiscal year 2015.
- Item 7.(k) Sufficient Revenues
 - The District met this covenant as evidenced in its audited financial statements through fiscal year 2015.
- Item 7.(l) Debt Service Coverage
 - The District’s debt service coverage to net revenues was 1.78X for fiscal year 2016. The District has met the debt service coverage requirement for fiscal year 2016.

- Based on its forecast of future years' net revenues and debt service coverage ratios, the District projects that it will meet the debt service coverage requirement with estimated debt service coverage to net revenues ranging from 1.55X to 1.74X for fiscal years 2016 through 2019. Coverage ratios in forecast years FY2018 and FY2019 include the estimated reduction in debt service expected to be attained by the refunding.

- Security deposits are fully funded.

Repayment:

- Item 4.(a) Repayment
 - The OSLF Program Accounting Analyst confirmed that the District has made all payments to the SRF loan program in a timely manner.

Financial Resources

For the fiscal year ended June 30, 2015, the District's Water Fund reported operating income of \$209,417, and a positive change in net position of \$236,580 in its audited financial statements. Debt service payments for fiscal year 2015 were \$545,277 consisting of principal payments of \$283,897 and interest payments of \$261,380.

As of fiscal year end 2015, the District's Water Fund reported \$874,150 in cash.

Conclusion

The District appears to meet TLDA's guidelines for approval to issue refunding bonds and has had sufficient cash and revenues to meet its obligations.

BASS BERRY ♦ SIMS PC

Jeffrey A. Oldham
joldham@bassberry.com
(615) 742-7704

November 18, 2016

VIA E-MAIL (sandl.thompson@cot.tn.gov)

Ms. Sandra Thompson, Director
Office of State and Local Finance
James K. Polk Building, Suite 1600
505 Deaderick Street
Nashville, Tennessee 37243

RE: Poplar Grove Utility District of Tipton County, Tennessee (the "District") –
Proposed Waterworks Revenue Refunding Bonds, Series 2016 (the "Bonds")

Dear Sandi:

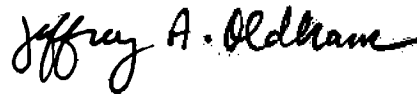
The District proposes to issue the Bonds to refund certain outstanding debt (the "Refunded Bonds") for debt service savings, all as more fully detailed in the plan of finance filed with the office of state and local finance on November 4, 2016. The Bonds are proposed to be issued on a subordinate basis to the District's 2014 State Revolving Fund Loan. The issuance of the Series 2016 Bonds requires the approval of the Tennessee Local Development Authority (the "TLDA").

On the District's behalf, I am asking that the TLDA consider approving the issuance of the Bonds. We believe that, under the TLDA's revised SRF Policies, this approval may be granted by the Vice Chairman of the TLDA, because the refunding will not extend the life of the refunded debt and will result in net present-value debt service savings greater than 3%.

I am happy to answer any questions you may have.

Thanks for your help.

Yours truly,



Jeffrey A. Oldham

JEO

cc: David Braden
Mark Butler



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF STATE AND LOCAL FINANCE**

**CITY OF FRANKLIN
REQUEST TO MODIFY LIEN POSITION REFUNDING AND NEW MONEY BONDS**

The City of Franklin (the “City”) has submitted a request for approval to modify the lien position of its outstanding State Revolving Fund loans (“SRF Loans”) so they will be on parity with the City’s planned issue of Water and Sewer Revenue Bonds (the “2016 Water and Sewer Revenue Bonds”) later this calendar year. The 2016 Water and Sewer Revenue Bonds will finance various capital improvements to the City’s water and sewer system and will be secured only by the system’s revenues.

The TLDA’s *State Revolving Fund Policy and Guidance for Borrowers* adopted on September 21, 2016, states:

“If a Borrower requests a modification of the TLDA’s lien position to new debt, the TLDA will only consider a modification upon demonstration from a Borrower of good cause, sufficient resources to repay the SRF Loan(s), and ability to satisfy any other such requirements as set forth by the TLDA at the time of the request.”

LIEN POSITION MODIFICATION CONSIDERATIONS

Water and Sewer Revenue Bonds, Series 2016

The City plans to issue \$12,000,000 Water and Sewer Revenue Bonds prior to the end of this calendar year, the purpose of which is to finance various capital improvements, including facility improvements, equipment technologies and environmental considerations for its drinking water system. The City posits that the lien modification for its SRF Loans will not impair TLDA’s security position and that issuing bonds subordinate to the SRF Loans will be significantly more expensive for the City.

SRF Loans Information

The City’s current SRF portfolio:

Loan ID	Total Funding	Original Loan Amount	Principal Forgiveness	Outstanding Balance as of November 17, 2016
CW 09-250	\$ 3,147,000	\$ 1,888,200	\$ 1,258,800	\$ 1,580,213
DW 09-097	2,500,000	1,500,000	1,000,000	1,140,207
DW 16-374	1,677,259	1,677,259	-	- /a
DW 16-367	1,822,241	1,822,241	-	- /a
2017 Clean Water Loan	45,000,000	-	-	- /b

/a No draws as of November 17, 2016

/b City expects to be approved next year

Credit Ratings

The City currently has outstanding revenue and tax debt that is rated Aaa by Moody's. Its Series 2015 general obligation bonds are rated Aaa by Moody's and AAA by Standard & Poors.

Compliance with SRF Loan Covenants

SRF Loan covenants and representations:

- **Item 7.(g) GAAP Accounting and Audited Annual Financial Statement Requirement**
 - The City met this covenant and has timely filed its audited financial statements with the Division of Local Government Audit through fiscal year 2015.
- **Item 7.(k) Sufficient Revenues**
 - The City met this covenant as evidenced in its audited financial statements through fiscal year 2015.
- **Item 7.(l) Debt Service Coverage**
 - The City's current and projected Debt Service Coverage Ratio exceeds 1.2X net revenues.

Repayment:

- **Item 4.(a) Repayment**
 - The OSLF Program Accounting Analyst confirmed that the City has made all payments to the SRF/DWF loan program in a timely manner.

Financial Resources

As of fiscal year end 2015, the City's Water and Sewer Fund reported \$866,452 in restricted cash and cash equivalents and \$14,186,675 in unrestricted cash and cash equivalents.

The City reported that total amount of state-shared taxes received by the City in fiscal year 2015 was \$10,863,086.

The City's water and sewer system does not rely heavily on any one single customer for system revenues. Its largest water system user represents approximately 1.4% of its water billings, and its largest two wastewater system users each represent less than 1% of total billings.

Conclusion

The City appears to meet TLDA's guidelines for approval of a lien position modification and has had sufficient cash to meet its obligations.

ADMINISTRATION

Russell B. Truell
Assistant City Administrator, CFO
Finance



Dr. Ken Moore
Mayor

Eric S. Stuckey
City Administrator

**HISTORIC
FRANKLIN
TENNESSEE**

October 20, 2016

Ms. Sandi Thompson
Director, State and Local Finance
State of Tennessee
Comptroller of the Treasury
James K. Polk State Office Building
505 Deaderick Street, Suite 1600
Nashville, Tennessee 37243-0274

City of Franklin, Tennessee Water & Sewer System

Request for Parity Lien

Dear Ms. Thompson:

The City of Franklin (the "City" or "Franklin") has two (2) outstanding State Revolving Fund ("SRF") Loans from 2009 (the "2009 SRF Loans") and has obtained approval for an additional two (2) SRF Loans associated with the City's SCADA System (the "SCADA SRF Loans"). The City is also expecting to obtain approval for a fifth loan with the SRF Program in early 2017 (the "2017 SRF Loan"). The 2009 SRF Loans, the SCADA SRF Loans, and the 2017 SRF Loan will be collectively referred to herein as the "Loans". Additionally, the City is also planning to issue Water and Sewer Revenue Bonds in the public market before the end of the calendar year (the "2016 Water and Sewer Revenue Bonds"). Pursuant to the Tennessee Local Development Authority (the "TLDA") State Revolving Fund Policy (the "Policy"), the City submits this request to modify the lien position of the Loans so that they will be on parity with the 2016 Water and Sewer Revenue Bonds. This parity lien position will permit holders of the 2016 Water and Sewer Revenue Bonds and the TLDA to have the same claim over the City's water and sewer revenues. As provided below, granting this parity request will not impair the TLDA's security under the Loans and, as it relates to the 2017 SRF Loan, will actually improve the TLDA's security position. Not granting this parity request will make the issuance of the 2016 Water and Sewer Revenue Bonds significantly more expensive for the City.

Overview

The City's 2009 SRF Loans are a Clean Water Loan and Drinking Water Loan from 2009 that are both expected to mature in 2031. Each of the 2009 SRF Loans are secured by a lien on revenues of the City's water and sewer system (the "System") as well as ad valorem taxes and state-shared taxes of the City. On June 16, 2016, Franklin was approved for two (2) additional loans through the SRF program for its SCADA System (the electronics that monitor the different pieces of the water system, such as water towers, flow meters, etc.). Both SCADA SRF Loans are for 15-year terms and are also secured by a lien on System revenues as well as ad valorem taxes and state-shared taxes of the City. According to the Policy,



the SCADA SRF Loans are automatically secured by a lien on System revenues that is subordinate to the 2009 SRF Loans, unless the necessary actions are taken to request modification for the lien position. In late 2016, the City plans to issue its 2016 Water and Sewer Revenue Bonds for various capital improvements to the System. The 2016 Water and Sewer Revenue Bonds will be secured only by System revenues and will have a lien on System revenues that is subordinate to both the 2009 SRF Loans and the SCADA SRF Loans. Due to various conversations with the SRF program, the City is expecting to obtain approval for the 2017 SRF Loan in early 2017, which 2017 SRF Loan will be subordinate to the 2009 SRF Loans, SCADA SRF Loans and 2016 Water and Sewer Revenue Bonds, unless there is approval to modify the lien position.

Request for Parity

Approval of the 2017 SRF Loan is expected to be granted soon after the issuance of the 2016 Water and Sewer Revenue Bonds, creating an opportunity to request parity in advance of issuing such bonds and approval of the 2017 SRF Loan. By permitting the 2017 SRF Loan to be issued on parity with the 2016 Water and Sewer Revenue Bonds, the 2017 SRF Loan will have a lien on System revenues superior to the subordinate lien that it would otherwise have. The City's System has substantial revenues to support the Loans and the 2016 Water and Sewer Revenue Bonds and has seen a strong upward trend in its System revenues. The City believes this trend will continue. The City pledges to keep debt service coverage at a level of 1.25x, above the current Policy requirement of 1.20x.

Furthermore, the parity lien will provide the TLDA with a stronger security position by creating all investors equal, including the TLDA. The City strives to create a level playing field for all its investors, including the TLDA, by complying with its rate covenant and additional bonds test for System debt that will be included in the City's 2016 Water and Sewer Revenue Bond Resolution (to be presented to the City's Board of Mayor and Alderman in October 2016).

If the parity request herein is not granted, despite the strength of the City's System, the City will have to pay significantly more in interest costs when issuing its 2016 Water and Sewer Revenue Bonds, creating an unnecessary financial burden for the City's System.

It is also important to note that, while the 2016 Water and Sewer Revenue Bonds will only be secured by System revenues, the Loans are all additionally secured by ad valorem taxes and state-shared taxes of the City, providing the TLDA with an unusually high level of security for its Loans irrespective of System revenues.

SRF Policy Requirements

- Compliance of the Borrower (City of Franklin) with its SRF loan agreement(s) and covenants and representations set forth in the loan agreement;

City Response: The City, as the Borrower, is in compliance with its SRF loan agreements and requests the TLDA and its staff confirms such compliance with the SRF Program.



HISTORIC
FRANKLIN
TENNESSEE

- Amount of authorized and outstanding SRF program debt of the Borrower (City of Franklin);

City Response: As outlined above, the City has four (4) approved SRF Loans and one (1) expected to be approved in 2017.

SRF Loans Authorized with Outstanding Balances	Amount Authorized	Amount Outstanding (Oct 1, 2016)
2009 Clean Water SRF Loan	\$3,147,000	\$1,593,505
2009 Drinking Water SRF Loan	\$2,500,000	\$1,151,232
SRF Loans Authorized without Outstanding Balances	Amount Authorized	Amount Outstanding (Oct 1, 2016)
2016 SCADA SRF Loan (SRF)	\$1,677,259	n/a
2016 SCADA SRF Loan (CG2)	\$1,822,741	n/a
2017 Clean Water SRF Loan	\$45,000,000	n/a

- Borrower's history of timely repayments of SRF loans;

City Response: The City, as the Borrower, has a history of timely repayments of its SRF Loans and requests the TLDA and its staff confirm such compliance with the SRF Program.

- Borrower's timely filing of financial statements with the Division of Local Government Audit, Tennessee Comptroller of the Treasury;

City Response: The City, as the Borrower, has timely filed its financial statements with the Division of Local Government Audit and requests the TLDA and its staff confirm such compliance with the Comptroller's Office.

- Purpose and amount of proposed debt issuance;

City Response: The 2016 Water and Sewer Revenue Bonds in the amount of \$12 million will fund the needed facility improvements, equipment technologies and environmental considerations of the existing drinking water plant that provides 2.6 million gallons/day. Advanced treatment technologies include membrane filtration and ultraviolet advanced oxidation process. Total project cost is \$15.3 million, including \$14.0 in construction costs.

- Borrower's credit rating (if applicable);

City Response: The City's water and sewer system does not have an issuer rating; however, the City intends to apply for one or more ratings as part of the issuance of the 2016 Water and Sewer Revenue Bonds.

- Current and pro-forma (projected) debt service coverage;

City Response: Please see attached.



- Amount of unobligated state-shared taxes (if applicable);

City Response: The total amount of state-shared taxes received by the City of Franklin in FY2015 was \$10, 863,086.

- The system's reliance on revenues generated from its largest user(s) as a percentage of total system revenues;

City Response: The System is not heavily reliant on a single factory or business for system revenues, as there is not one institution that uses a significant amount of drinking or wastewater in relation to other consumers. Williamson Medical Center (Curd Location) is the largest Water System user with 1.4% of FY 16 water billings while the Franklin Estates Mobile Home Park and Carrington Hills Apartment Complex are the largest Wastewater customers, each with less than 1% of total billings.

In Summary

The City has both the capacity and the desire to secure the Loans and 2016 Water and Sewer Revenue Bonds on a parity basis to provide a stronger position for the SRF program and create a level playing field for all of its investors.

Sincerely,

Russell B. Truell
Chief Financial Officer,
City of Franklin, TN

CC: Ms. Karen Neal, *Bass Berry & Sims PLC*
Ms. Lillian Blackshear, *Bass Berry & Sims PLC*
Ms. Lauren Lowe, *PFM Financial Advisors LLC*
Ms. Olivia Menick, *PFM Financial Advisors LLC*

City of Franklin, Tennessee Current and Pro-Forma (Projected) Debt Service Coverage Water & Sewer Fund							
Fiscal Year	Operating Revenue	Operating Expenses (Incl. Personnel & Operations)	Debt Service & Lease Pmt Breakout (If Incl. in Operations)	Depreciation	Net Revenue Available for Debt Service: Operating Revenue-(Operating Expenses-Debt Service & Lease-Depreciation)	Debt Service***	Coverage
2015	25,283,748	21,895,279	1,789,337	5,627,823	10,805,629	4,926,109	2.19 x
2016	26,421,905	17,760,860	1,615,077	5,640,065	15,916,187	4,845,097	3.29 x
2017	25,844,177	19,304,956	1,995,766	5,696,466	14,231,453	5,057,562	2.81 x
2018	27,401,308	19,967,802	1,967,362	5,753,430	15,154,298	7,769,252	1.95 x
2019	28,961,618	20,596,640	1,952,218	5,810,965	16,128,161	7,728,591	2.09 x

Please Note: Depreciation for years 2017-2019 assumes a 1% growth rate

*** Debt Service Assumptions:

Series 2016 Water/Sewer Bonds: 20-Year level debt service, 10-Year par call, not to exceed \$12 million, Interest Rate at 5.00%

Series 2017: SRF Loan: 30-Year level debt service, Interest Rate at 1.25%, \$45 million

November 4, 2016

Ms. Sandi Thompson
Director, State and Local Finance
State of Tennessee
Comptroller of the Treasury
James K. Polk State Office Building
505 Deaderick Street, Suite 1600
Nashville, Tennessee 37243-0274

City of Franklin, Tennessee Water & Sewer System

Series 2016 Water & Sewer System Revenue Bonds: Term Sheet*

Dated Date:	Date of Delivery	Optional Redemption:	Callable on or after February 1, 2026 at par
Delivery Date:	December 2016 or January 2016	Structure:	20-Year Level Debt Service
Interest Payment Dates:	February 1 and August 1	Sale Date:	To be Determined
First Interest Payment Date:	August 1, 2017	Sale Type:	Competitive
Maximum Coupon/Interest Rate:	5.00%	Bid Award Method:	Lowest TIC
Maximum Par:	\$12,000,000	Bid Submission:	Electronic only through Parity

*Based off preliminary numbers, subject to change.